

EXHIBIT B

PROPOSED CHANGES TO COMMISSION RULES

Proposed additions are indicated by italics. Proposed deletions are indicated by strikethroughs

PART 64 - MISCELLANEOUS RULES RELATING TO COMMON CARRIERS

SUBPART I - ALLOCATION OF COSTS

64.900 Applicability of 64.901 to 64.904

(a) Carriers electing price cap regulation without a sharing requirement are exempt from Subpart I.

(b) Carriers exempt under 64.900(a) may elect to follow any or all of Subpart I for any study area or any group of study areas.

64.901 Allocation of costs.

(a) Carriers required to separate their regulated costs from nonregulated costs ***and carriers not exempt per 64.900(a)*** shall use the attributable cost method of cost allocation for such purpose.

(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.

(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service.

(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.

(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy:

(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.

(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.

(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities ***or based on a fixed factor allocator.***

~~(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and~~

~~nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.~~

64.902 Transactions with affiliates.

Except for carriers which employ average schedules in lieu of determining their costs **and carriers exempt per 64.900(a)**, all carriers subject to 64.901 are also subject to the provisions of 32.27 of this chapter concerning transactions with affiliates.

64.903 Cost Allocation Manuals

(a) Each local exchange carrier with annual operating revenues of \$100 million or more shall file with the Commission a manual containing the following information regarding its allocation of costs between regulated and nonregulated activities. ***For carriers electing to file for a study area or for a group of study areas under 64.900(b), only information related to those study areas need be included for the applicable items below:***

- (1) A description of each of the carrier's nonregulated activities;
- (2) A list of all the activities to which the carrier now accords incidental accounting treatment and the justification therefor;
- (3) A chart showing all of the carrier's corporate affiliates;
- (4) A statement identifying each affiliate that engages in or will engage in transactions with the carrier and describing the nature, terms and frequency of each transaction;
- (5) A cost apportionment table showing, for each account containing costs in providing regulated services, the cost pools with that account, the procedures used to place costs into each cost pool, and the method used to apportion the costs within each cost pool between regulated and nonregulated activities; and
- (6) A description of the time reporting procedures that the carrier uses, including the methods or studies designed to measure and allocate nonproductive time.

(b) Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their manuals at least ~~quarterly~~ **annually**¹. ~~except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at least 60 days before the carrier plans to implement the changes.~~ Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement concerning affiliate transactions must be quantified in \$100,000 increments at the account level. Changes in cost apportionment tables must be quantified in \$100,000 increments at the cost pool level. The Chief, Common Carrier Bureau may suspend ~~and~~ **any** such changes

¹ The change from quarterly to annual filings is mandated by the 1996 Act. *See* Telecommunications Act of 1996, § 402(b)(2). A requirement to file 60 days before implementation would either result in multiple filings per year or would constrain implementation to a certain time of the year.

for a period not to exceed 180 days, and may thereafter allow the changes to become effective or to prescribe a different procedure.

(c) The Commission may ~~be order require~~ any other communications common carrier to file and maintain a cost allocation manual as provided in this section.

64.904 Independent Audits

(a) Each local exchange carrier required by this part or by Commission order to file a cost allocation manual, **or any study area or group of study areas for which the carrier has elected to follow Subpart I per 64.900(b)**, shall have performed annually, by an independent auditor, an audit that provides a positive ~~option~~ opinion on whether the applicable data shown in the carrier's annual report required by 43.21(f)(2) of this chapter presents fairly, in all material respects, the information of the carrier required to be set for therein in accordance with the carrier's cost allocation manual, the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86-111 and the Commission's rules and regulations including sections 32.23, 32.27, 64.901 and 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau.

(b) the report of the independent auditor shall be filed at the time that the local exchange carrier files the annual report required by 43.21(f)(2) of this chapter.

PROPOSED CHANGES TO PART 43. PARAGRAPHS 43.21 (e) AND 43.21 (f) AND 43.22 (a) AND 43.22 (b)

[Please note that some of the following reports may be subject to further streamlining and/or possible elimination as a result of other dockets (CC 96-23, PP 96-17)]

~~43.21 (e) Each communications common carrier required by order to file a manual allocating its costs between regulated and nonregulated operations shall file, on or before April 1:~~

~~—— (1) A three year forecast of regulated and nonregulated use of network plant for the current calendar year and the two calendar years following, and investment pool projections and allocations for the current calendar year; and~~

~~—— (2) A report of the actual use of network plant investment for the prior calendar year.~~

43.21 (f) Each local exchange carrier with annual operating revenues of \$100 million or more **and local exchange carriers not exempt under 64.900(a)**, shall file, no later than April 1 of each year, reports showing:

(1) Its revenues, expenses and investment of all accounts established in part 32 of this chapter, on an operating company basis,

(2) The same Part 32 of this chapter, on a study area basis, with data for regulated and nonregulated operations for those accounts which are related to the carrier's revenue requirement, and

(3) The separations categories on a study area basis, with each category further divided into access elements and a nonaccess interstate category.

43.22 ~~Quarterly~~ **Other annual** reports of communication common carriers.

(a) Each local exchange carrier with operating revenues for the preceding year of \$100 million or more **and not exempt under 64.900(a)** shall file ~~by March 31, June 30, September 30 and December 31 of each year, by April 1 of each year,~~ a report showing ~~for the previous calendar quarter,~~ **for the previous year** its revenues, expenses, taxes, plant in service, other investment and depreciation reserves, and such other data as is required by the Commission, on computer media prescribed by the Commission. The total operating results shall be allocated between regulated and nonregulated operations, and the regulated data shall be further divided into the following categories: State and interstate, and the interstate will be further divided into common line, traffic sensitive access, special access and nonaccess.

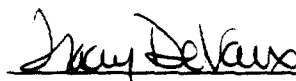
(b) Each designated interstate carrier with operating revenues for the preceding year of \$100 million or more **and not exempt under 64.900(a)** shall file ~~by March 31, June 30, September 30 and December 31 of each year, by April 1 of each year,~~ a report showing ~~for the previous calendar quarter,~~ **for the previous year** its revenues, expenses, taxes, plant in service, other investment and depreciation reserves, and such other data as is required by the Commission, on computer media prescribed by the Commission. The total operating results shall be allocated between regulated and nonregulated operations, and the regulated data shall be further divided into the following categories: State and interstate, and the interstate will be further divided into the major services.

PROPOSED CHANGES TO PART 32 PARAGRAPH 32.27(f)

32.27(f) Companies that employ average schedules in lieu of actual cost **and companies that are exempt under 64.900(a)** are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of May, 1996 a copy of the foregoing "Bell Atlantic Comments" was served on the parties on the attached list.



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